

MINUTES
MEETING OF THE
ILLINOIS STATE BOARD OF INVESTMENT
FRIDAY, SEPTEMBER 26, 2008 - 9:45 A.M.

Present:

Board Members

Guy Alongi
Allison Davis
Mike Goetz
Jack Mazzotti
Ronald Powell

Proxy

John Bowman, for Thomas Hoffman

Staff

William Atwood
Johara El-Harazin
Alex Garcia
Tim Kominiarek
Emily Reid
Scott Richards
Katherine Spinato
Alise White

Guests

Office of the Treasurer
Scott Kennedy
State Retirement Systems
Tim Blair
Marquette Associates
Brian Wrubel
Iron Capital Advisors
Chuck Osborne
M.R. Beal & Company
Edward Rozell III
Service Employees International Union
Chiraq Mieta

Absent:

Board Members

Alexi Giannoulas
Kurt Granburg

ROLL CALL

Chairman Goetz called the meeting to order at 9:45 a.m. The Secretary called the roll and noted that a quorum was present.

COMMUNICATIONS

Chairman Goetz reported that Judge Hoffman had appointed Judge John Bowman as his proxy to the Illinois State Board of Investment, and welcomed Judge Bowman.

Further, the Chairman reported that James Buchanan had resigned from the Illinois State Board of Investment.

MINUTES OF PREVIOUS MEETING

Mr. Davis moved to approve the minutes of the Board meeting held September 26, 2008, in the form previously submitted, with the signature being amended from Judge Hoffman to Mr. Mazzotti. Mr. Powell seconded and the motion passed unanimously.

REPORT OF STANDING COMMITTEES

Investment Policy Committee

Director Atwood reported that the Committee had heard presentations from international small cap equity managers and was recommending a commitment of approximately \$200 million to LSV Asset Management and authorizing staff to rebalance the international small cap portfolio consistent with portfolio guidelines and objectives. Mr. Davis moved to approve the Investment Policy Committee recommendation to engage LSV Asset Management as an international small cap equity manager, subject to successful contract negotiations and authorize Staff to rebalance the international small cap portfolio consistent with guidelines and objectives. Mr. Mazzotti seconded and the motion passed unanimously.

Audit & Compliance Committee

Chairman Goetz stated that the Audit & Compliance Committee had met prior to this meeting and referred to Mr. Alongi to report on the Committee's actions. Mr. Alongi reported the following actions by the Audit & Compliance Committee:

- The minutes of the Audit & Compliance Committee meeting held July 11, 2008 were approved.
- Alise White reported that the FY 2008 audit had begun.
- The Committee reviewed an update to the IT project.

- Staff reported there were no exceptions to report to the Staff's Monthly Personal Interest Statements through June 2008.
- The Commission Recapture Report for the quarter ended June 2008, and the Record of Vouchers for the months of April, May and June 2008 were reviewed and approved.

Mr. Alongi moved to approve and ratify the actions of the Audit & Compliance Committee as outlined above. Mr. Mazzotti seconded and the motion passed unanimously.

REPORT OF THE CHAIRMAN

Chairman Goetz reported that he would be attending the Alinda annual and advisory board meetings in New York, NY and would be discussing the labor issue at the water treatment plant.

The Chairman further reported that he would be attending the Council of Institutional Investors Fall meeting being held in Chicago, IL.

Chairman Goetz stated that the calendar year 2009 Schedule of Meetings was previously distributed. Mr. Davis moved to approve the Schedule of Meetings as distributed. Mr. Mazzotti seconded and the motion passed unanimously. (Official minutes contain attachment.)

REPORT OF CONSULTANT – MARQUETTE ASSOCIATES

Investment Performance Report

Mr. Wrubel referred to the Investment Performance Report for the period ended June 30, 2008 and the Interim Performance Report for the period ended August, 2008. Detailed review and discussion ensued regarding investment performance. (Official minutes contain attachments.)

DEFERRED COMPENSATION

Director Atwood reported that there were administrative issues with the Joint Committee on Administrative Rules (JCAR) relating to the administrative rules previously adopted by the Board. Following review and discussion, Mr. Alongi moved to approve the recommendation of Director Atwood to not proceed with the current rules and report back to the Board at the next meeting with amended rules. Mr. Mazzotti seconded and the motion passed unanimously.

Review of Hardship Appeal Procedures

Discussion ensued regarding the process for Deferred Compensation participants to appeal a hardship request. Following discussion, Mr. Mazzotti moved to direct staff to review and recommend procedures to streamline the process. Mr. Davis seconded and the motion passed unanimously.

Investment Manager Performance Review

Chuck Osborne, Iron Capital Advisors referred the members to his written report and reviewed. (Official minutes contain attachment.)

REPORT OF THE DIRECTOR

Chairman Goetz stated that the Board would go into Executive Session to discuss specific investment manager contracts, a current litigation matter and an imminent securities litigation matter.

Mr. Powell moved to go into Executive Session. Mr. Davis seconded and the motion passed unanimously. Guests and staff with the exception of Director Atwood, Ms. Spinato Ms. Reid, and Messrs. Osborne and Wrubel excused themselves from the meeting.

Following Executive Session, Mr. Davis moved to return to open session. Mr. Powell seconded and the motion passed unanimously.

Watch List

Director Atwood called on Scott Richards to review the Watch List. Mr. Richards stated that the Watch List for the 2nd quarter 2008 was previously distributed and reviewed. (Official minutes contain attachment.)

Matters Relating to Existing Managers

Mr. Alongi moved to terminate the Amalgamated Bank of New York agreement and allocate the assets to Rhumblin. Mr. Mazzotti seconded and the motion passed unanimously.

Mr. Alongi moved to authorize a search in the Deferred Compensation Plan for a large cap blend manager. Mr. Mazzotti seconded and the motion passed unanimously.

Mr. Powell moved to amend the Deferred Compensation Investment Guidelines to include provisions for inclusion of minority investment managers. Mr. Mazzotti seconded and the motion passed unanimously.

Proxy Voting – International Securities

Ms. Reid referred to her memorandum “Complications Associated with Global Proxy Voting” dated September 15, 2008. Following review, Mr. Davis moved to approve the staff recommendation in instances where physical presence is required at an annual

global portfolio company meeting, to have the applicable investment manager holding shares vote on the Board's behalf; and if the investment manager is not going to vote the shares of its clients due to the special voting procedures required by the particular global portfolio company, Staff would like the option of electing not to vote those shares in these limited instances. Mr. Powell seconded and the motion passed unanimously. (Official minutes contain attachment.)

Portfolio Climate Risk and Environmental Sustainability

Director Atwood stated that at the last meeting Treasurer Giannoulis inquired about climate risk in the ISBI portfolio. Ms. Schoemehl referred to her memorandum "Climate Risk" dated September 26, 2008 and reviewed stating that a general inquiry was made of climate risk assessment to ISBI investment managers. Further, staff researched the issue by working directly with Ariane Van Buren of the Investor Network on Climate Risk "INCR/CERES". (Official minutes contain attachment.)

Pension Fund Cost Comparison

The Director stated also at the last meeting Treasurer Giannoulis requested information as to how ISBI's budget compared to other like pension funds. Ms. El-Harazin referred to her memorandum "Public Pension Systems Cost Comparison" dated September 15, 2008, and reviewed. (Official minutes contain attachment.)

Matters Relating to Existing Managers (continued)

Scott Richards reviewed his memorandum "Matters Relating to Existing Managers" dated September 17, 2008 which had previously been distributed. Tim Kominiarek reviewed his memorandum "Matters Relating to Existing Managers/Investments" dated September 9, 2008 which had previously been distributed. (Official minutes contain attachments.)

Budget Comparison

Ms. White stated that a draft of the Budget Comparisons for the quarter ended June 2008 had previously been submitted. There being no questions or comments, the Budget Comparison were ordered filed. (Official minutes contain attachments.)

Minority Brokerage Usage

Ms. Garcia stated that the "Minority Brokerage Usage Report" for the period ended June 30, 2008 had previously been distributed and stated that all managers, with the exception of Loomis Sayles, had exceeded the 15% usage of minority broker/dealers. There being no questions or comments, the report was ordered filed. (Official minutes contain attachment.)

Legislative Update

Ms. Reid referred the Members to her memorandum "HB 824" dated July 2, 2008 and reviewed. (Official minutes contain attachment.) Further Ms. Reid reported that SB 780 was a new bill introduced that may require revisions to ISBI contracts.

List of Forbidden Entities Adoption

Ms. Garcia referred the Members to her memorandum "List of Forbidden Entities (LFE) – Sudan" dated September 15, 2008. Following review, Mr. Powell moved to approve the list of forbidden entities dated August 31, 2008. Mr. Davis seconded and the motion passed unanimously.

REPORT OF ANY BOARD MEMBER

None.

UNFINISHED BUSINESS

None.

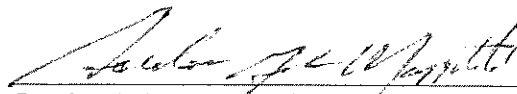
NEW BUSINESS

None.

NEXT MEETING AND ADJOURNMENT

Chairman Goetz stated that the next meeting of the Audit & Compliance Committee and Board were scheduled to be held Friday, December 19, 2008 at 9:30 a.m. and 9:45 a.m., respectively. At 11:50 a.m., there being no further business to come before the Board, Mr. Mazzotti moved to adjourn. Mr. Alongi seconded and the meeting was adjourned.

Respectfully submitted,



Gordon John Mazzotti, Vice Chairman



Michael Goetz, Chairman